

Report Card

TEACHERS' FUND FOR RETIREMENT

JANUARY 2004



2003 Actuarial Report Shows Losses

Each year, TFFR's actuary, Gabriel, Roeder, Smith & Company (GRS) performs an actuarial valuation. Simply put, an actuarial valuation is a mathematical means of determining if the contributions paid by members and employers, along with investment earnings, are adequate to pay the retirement benefits for current and future retirees.

As of July 1, 2003, the TFFR plan represented 16,602 active, inactive, and retired members. The average age of the 9,916 active members was 44.8 years; average service was 14.6 years; and average annual salary was \$37,105. There were 5,177 retirees and beneficiaries receiving average benefits of \$14,439 per year. While active membership is declining, the number of retired members has grown an average of 2.2% per year over the last 10 years. Currently, there are 1.9 active members for each retiree (down from 2.3 ten years ago), and the ratio of active to retired members continues to slowly decrease.

According to the 2003 actuarial report, the member and employer contribution rate of 7.75% each is no longer sufficient to fund TFFR benefits and to amortize TFFR's unfunded actuarial accrued liability (UAAL) over a period of 20 years. The margin between the rate mandated by

law and the rate necessary to fund the UAAL in 20 years is -1.19%. This margin decreased from 1.66% last year, mainly because of recognized investment experience losses.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) decreased from last year. The funded ratio last year was 91.6%, while it is 85.1% this year. This decrease is also due to the recognized investment experience losses.

Because of the 5-year smoothing method that TFFR uses, all investment losses have not yet been reflected in the actuarial measurements. As these losses are recognized over the next four valuations, it is expected that the negative margin will continue to increase and the funded ratio will continue to decrease, in the absence of changes in the benefit and contribution structure of TFFR and in the absence of other experience gains or losses.

The TFFR Board is concerned about the financial soundness of the plan, and is considering various options for dealing with future funding issues. The Board will be discussing alternatives with member and employer interest groups in the next few months.

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Articles are for general information only and are not intended to provide specific advice or recommendation. Other forms of this newsletter are available on request.

Facts Are Stubborn Things

"Facts are stubborn things; and whatever may be our wishes, our inclinations, or the dictates of our passions, they cannot alter the state of facts and evidence."

John Adams
2nd President of the United States (1797-1801)

The past few years have been difficult ones for our nation, our state, and TFFR. The problems are rooted in the economic woes our country has faced and three years of "bear market" investment losses. Here are a few facts that cannot be ignored:

FACT #1: TFFR benefit funding comes from three sources:

- Employee contributions (7.75% statutory rate)
- Employer contributions (7.75% statutory rate)
- Investment Earnings (8.00% earnings assumption)

FACT #2: In the past three years, annual investment returns have not met the 8% assumed rate. Due to the smoothing approach used by TFFR, losses (and gains) are phased in over 5 years.

1999	11.06%
2000	11.63%
2001	-7.00%
2002	-8.88%
2003	2.28%

FACT #3: As a result, the fund's investments have dramatically decreased in value. See chart on page 3 which illustrates how the market value of assets has declined from its high of \$1.4 billion in 2000 to \$1.175 billion in 2003.

FACT #4: The 2003 actuarial valuation shows a funded ratio of 85.1%, a decrease from the previous year's 91.6%. See table on page 3 which shows a history of TFFR's funded ratio. The funded ratio is expected to continue to decrease as deferred investment losses are recognized.



Fay Kopp
Deputy Executive Director

FACT #5: The 2003 actuarial valuation shows a negative margin of -1.19%. This means the current contribution rates may no longer be sufficient to fund TFFR benefits.

FACT #6: Declines in student population are expected to lead to declines in the active membership of TFFR which will have serious negative consequences. Ten years ago, the ratio of active members to retired members was 2.3 to 1. Today there are 1.9 active members for each retiree. This trend is expected to continue.

FACT #7: We don't know what the future will hold. Although we can hope for some relief in the shape of a strong stock market rally, the current surge is nowhere near strong enough to lift pension funds out of their difficulties.

Facts are stubborn things.

Proper funding and healthy investment returns are very important to the financial soundness of TFFR. However, unless future investment returns make up all that has been lost in the past three years, or unless there is a change in the contribution structure, like many retirement plans around the nation, TFFR may be facing serious funding shortfalls in the years ahead.

The TFFR Board and State Investment Board are closely monitoring investment strategy and results. In addition, the TFFR Board is analyzing other options including increasing contribution rates to stabilize the long-term funding of the plan. Members will be kept informed about the Board's recommendations through member newsletters. However, any plan changes must be studied by the interim Legislative Employee Benefits Programs Committee, and approved by the Legislative Assembly.

Yes, unfortunately, facts are very stubborn things.



Administrative Rules Hearing

A public hearing has been scheduled for January 15, 2004, to address proposed amendments to ND Administrative Code Title 82. The purpose of the proposed amendments is to implement new state statutes.

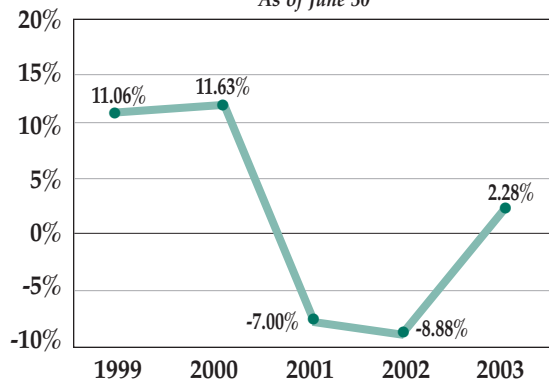
The proposed rules address the Teachers' Fund for Retirement definitions; dual membership provisions; employer service purchase; rollover contributions for the purchase of service credit; benefit payment options; actuarial factors; and Qualified Domestic Relations Orders.

A copy of the proposed rules may be viewed online at www.discovernd.com/rio or may be requested by writing or calling the Retirement and Investment Office. Oral or written comments will be accepted until February 17, 2004.

2003 Annual Report Summary

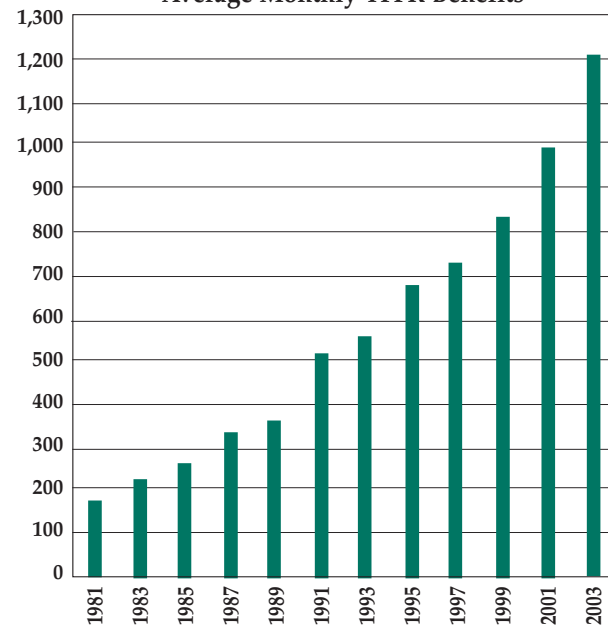
Investment Performance

As of June 30

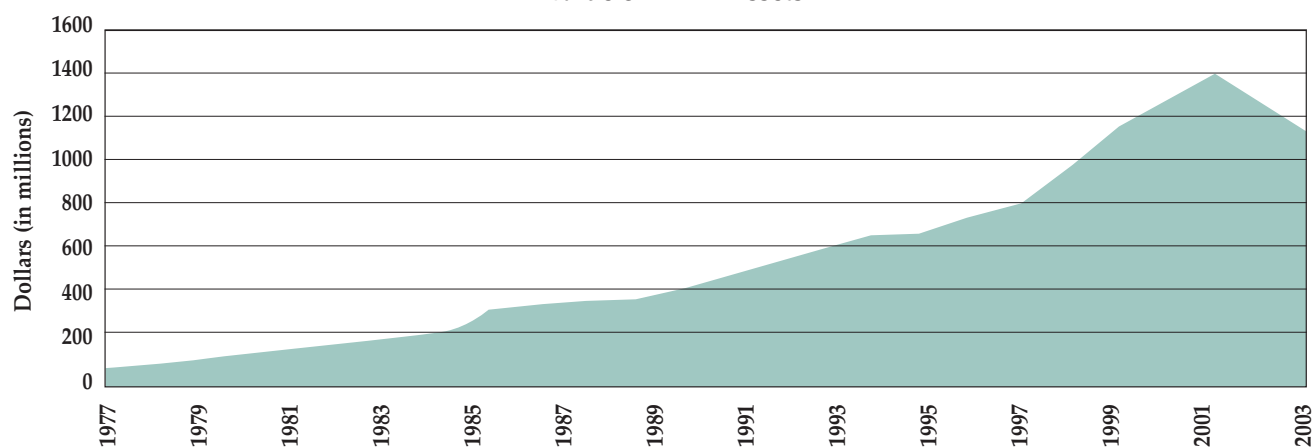


Average Monthly TFFR Benefits

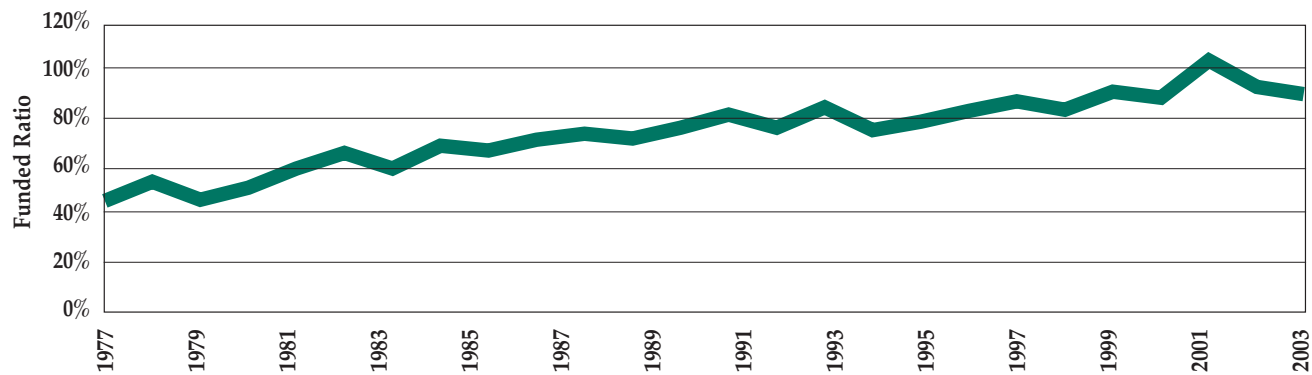
Dollars



Value of TFFR Assets



TFFR Funded Ratio

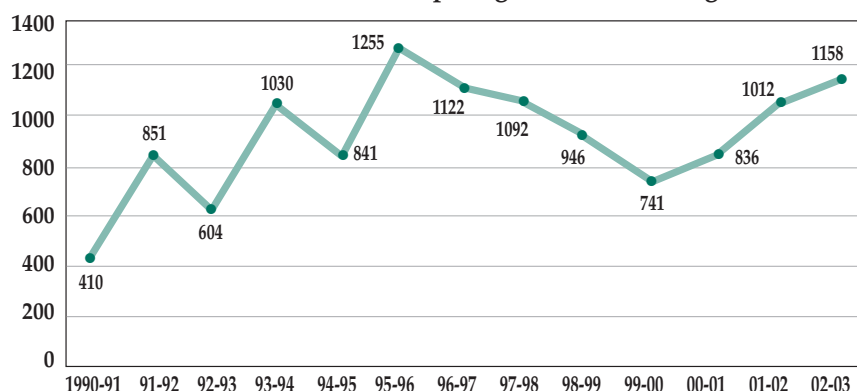


TFFR Outreach Schedule

There is still time to join the thousands of TFFR members who have participated and benefited from the outreach programs sponsored by TFFR. Individual 30-minute benefits counseling appointments are available to discuss TFFR benefits and other retirement concerns. The six hour pre-retirement planning seminar covers TFFR benefits, financial planning, estate planning, Social Security benefits, and health insurance. The two-day seminar is held from 4-7 p.m. each day. To register for the remaining 2003-04 outreach programs, call 1-800-952-2970 or 328-9886.

Bismarck Benefits Counseling	January 14-15, 2004
Grand Forks Pre-Retirement Seminar	January 21-22, 2004
Bismarck Pre-Retirement Seminar	January 28-29, 2004

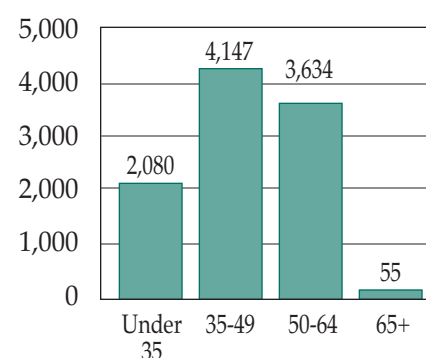
Active Members Participating in Outreach Programs



Did You Know?

- TFFR's active membership is made up of 2,812 males and 7,104 females.
- Total salaries reported to TFFR in 2002-03 totaled almost \$368 million.
- Average salary for an active TFFR member is \$37,105.
- Average service credit for an active TFFR member is 14.6 years.
- Average age of an active TFFR member is 44.8 years.

Active Membership by Age



TFFR Financial Statements

STATEMENT OF ASSETS AS OF JUNE 30, 2003

ASSETS

Equities	\$ 769,229,604
Fixed Income	203,349,406
Real Estate	109,451,910
Private Equity	52,189,986
Invested Cash	23,855,378
Invested Securities Lending	53,373,514
Receivables	10,891,084
Other Assets	<u>7,388,155</u>
Total Assets	\$ 1,229,729,037

LIABILITIES

Accounts Payable	\$ 824,172
Accrued Expenses	244,481
Securities Lending	53,373,514
Other Liabilities	<u>38,392</u>
Total Liabilities	\$ 54,480,559

Net Assets on June 30, 2003 \$ 1,175,248,478

CHANGES IN ASSETS DURING FISCAL YEAR 2003

CASH POSITION

Net Assets on June 30, 2002 \$ 1,165,369,565

ADDITIONS

Member Contributions	\$ 28,851,110
Employer Contributions	28,850,725
Other Additions	2,508,233
Investment Income	<u>24,500,197</u>
Total Additions	\$ 84,710,265

DEDUCTIONS

Benefits Paid	\$ 72,044,977
Refunds	1,729,764
Administrative Expenses	<u>1,056,611</u>
Total Deductions	\$ 74,831,352

Net Increase \$ 9,878,913

Net Assets on June 30, 2003 \$ 1,175,248,478

Getting Your Ducks in a Row for Retirement

Although the decision to retire is not always an easy one, our goal at TFFR is to make the process of retiring as simple as possible. Benefits counselors are available to assist you in the transition from an active member to a retiree. Read on to see what you should expect during the retirement process.

When can I retire?

Your retirement date will be the first or the fifteenth day of the month following your last date of covered employment or eligibility for benefits. Actual payment of benefits will be on the first of the month and may be retroactive to your retirement date.

Examples:

Last taught: May 23

Retirement date: June 1

Last taught: June 6

Retirement date: June 15

How do I apply for retirement benefits?

Contact a TFFR Benefits Counselor or attend a benefits counseling session to review your benefit calculation and receive a Notice of Termination form. Submit the Notice of Termination form, to the TFFR office, about 90 days prior to retirement. Also include a copy of the following:

- Proof of age
- Beneficiary proof of age
- Teaching contract
- Letter of resignation and acceptance by employer

TFFR will review your account and retirement enrollment forms will be sent to you. These include an Enrollment for Retirement Benefits, Designation of Beneficiary, Direct Deposit Authorization, and Tax Withholding forms. Complete, sign, and return these forms to TFFR.

What payment options will I have?

All options provide you with a lifetime monthly benefit that varies with the degree of survivor benefits available to your beneficiary.

- Single Life
- 100 Percent Joint and Survivor
- 50 Percent Joint and Survivor
- Ten Year Term Certain and Life
- Twenty Year Term Certain and Life
- Level Income with Social Security
- Partial Lump Sum

Will I pay taxes on my retirement benefit?

Retirement benefits are taxable as ordinary income under both federal and state law. However, you do not pay Social Security or Medicare taxes.

What about health insurance?

Retired members who are receiving a monthly benefit from TFFR may be eligible to participate in the group insurance plans administered by the ND Public Employees Retirement System (PERS). These include health, vision, dental, and long-term care insurance.

Pension Software Project Update

In June, we informed you that TFFR had been working with MSI Consultants to study replacement or upgrade options to our outdated main-frame computer system. Two phases of the project have been completed. The following is a project update.

PHASE 1

Completed

A feasibility study considered TFFR's business and technical environment, and evaluated replacement or upgrade options.

PHASE 2

Completed

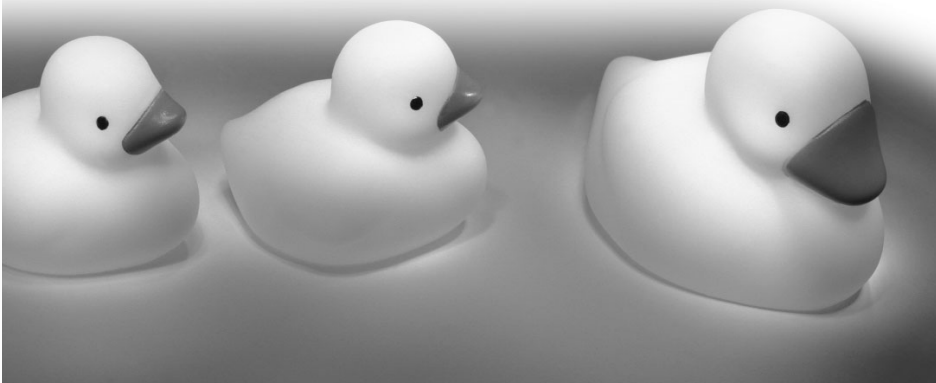
A vendor comparison review of four qualified vendor software solutions allowed TFFR to evaluate vendor software capabilities.

PHASE 3

In Process

Requests for Proposal (RFP) were developed, distributed and the responses are being evaluated.

We hope to award a contract with the selected vendor in January and begin transition to a new solution in the spring of 2004.



**Visit our website for information
from the North Dakota Retirement
and Investment Office...**
www.discovernd.com/rio

**View the 2003 TFFR
Annual Financial Report
now online.**

TFFR Board Responsibilities

The seven-member TFFR Board of Trustees is charged by state law with the administration of the TFFR retirement program. Trustees must perform their fiduciary responsibilities in the interest of all plan participants and beneficiaries. Responsibilities include:

- Establish investment policy and asset allocation
- Hire actuarial and medical consultants
- Conduct actuarial valuations and studies
- Pay benefits and consultant fees
- Develop retirement policy and administrative rules
- Submit proposed legislative changes
- Determine appropriate levels of service to TFFR members.



*Pictured left to right, back row: Barb Evanson, Mark Sanford, Kathi Gilmore
Front row: Norm Stuhlmiller, Paul Lofthus,
Clarence Corneil, Wayne Sanstead*

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